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DEPT PASS TO USAID FOR CKISCO
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DEPT OF THE TREASURY FOR BMCCAULEY

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SUBJECT: ROYG REQUESTS U.S. FUNDING FOR TOP TEN ECONOMIC
PRIORITIES CONSULTANCY

REF: A. 09 SANA 1375
[1](#)B. 09 SANA 1549

[11.](#) (U) This is an action request: see paragraph eight.

SUMMARY

[12.](#) (SBU) Seeking to jumpstart a moribund economic-reform effort announced in August 2009, presidential son Ahmed Ali Saleh has brought in the U.S. consulting firm McKinsey and Company to help implement three of the Top Ten Economic Reform Priorities: sending Yemeni workers to GCC countries to increase remittance levels; eliminating inefficiency and corruption in the power sector; and modernizing the port city of Aden. Bringing in an independent consultancy, especially one whose credentials are widely respected by Arab economic elites, may help reformist elements in the ROYG push difficult economic decisions through a civil service that is resistant to change and hardly eager to cut into the entrenched business interests of some of the country's ruling elite. U.S. funding for McKinsey's consultant project in Yemen, perhaps announced in the context of the Friends of Yemen initiative, would help salvage an ambitious effort that has yet to truly get off the ground. END SUMMARY.

ROYG REQUESTS U.S. FUNDING FOR MCKINSEY PROPOSAL

[13.](#) (SBU) The ROYG, under the direction of a small investment committee headed by presidential son Ahmed Ali Saleh, has awarded a competitive tender for a policy consultancy to the U.S. firm McKinsey and Company to help implement three of the country's Top Ten Economic Reform Priorities (REFS A, B, and C): training Yemeni nationals to work in GCC labor markets; reforming the power sector by moving the ROYG away from a system of expensive diesel generators; and improving Aden's economic base with a series of real estate and port-modernization projects. Since it was first announced in August 2009, the reform package has been slow getting off the ground, owing to an absence of high-level attention and a lack of capacity in the ranks of the civil service. The ROYG will contribute USD 5 million towards the USD 8.5 million McKinsey proposal and is seeking the balance (USD 3.5 million) from donor countries.

¶ 14. (SBU) Deputy Finance Minister Jalal Yaqoub, accompanied by McKinsey partners Jorg Schubert and Gassan al-Kibsi, met with the Ambassador on January 9 to request U.S. funding for the project. Yaqoub described the McKinsey aspect of the Top Ten Priorities as essential to building momentum within the ROYG for the implementation of the Top Ten reforms. McKinsey's 132-page proposal to "stimulate Yemen's economic turnaround" faults the ROYG for having clear vision for the future but no ability to implement the cavalcade of national strategies announced over the past 15 years. McKinsey's 24-month plan would create a presidential "delivery unit," modeled after a similar office established by former PM Tony Blair's government. The "delivery unit" would report directly to President Saleh, in theory making him personally responsible for the implementation of each reform.

SENDING YEMENI LABOR TO THE GULF

¶ 15. (SBU) The plan seeks to partially return Yemen to the days, from the late 1970's until 1991, when almost half of the country's GDP came from remittances sent from more than a million Yemeni expatriates working in GCC countries. This phenomenon was brought to an abrupt halt as these countries expelled Yemeni workers following Yemen's failure to support UN-mandated military action against Iraq in the first Gulf War. Given current economic conditions in the region, the ROYG realizes that an arrangement of this scale is impossible and instead is seeking to send up to 40,000 trained Yemeni workers to GCC labor markets over the next two years.

McKinsey would analyze labor demand in various GCC economies,

set up background investigation procedures to assuage GCC countries' security fears about allowing in large numbers of Yemenis, and set up a vocational institute to train an initial target group of 200-500 workers within the first few months of the project.

STREAMLINING THE POWER SECTORS

¶ 16. (SBU) The ROYG is slowly bleeding its treasury dry with expensive but politically sensitive energy subsidies, gross inefficiencies and corruption at the Aden Refinery Company, and slow progress in switching the country's network of power plants to more efficient, cheaper, and available natural gas.

Members of Ahmed Ali's National Investment Committee want McKinsey to help wean the ROYG away from an overpriced, no-bid contract under which diesel generators are leased from a British firm and instead lease natural gas-fired generators. The savings incurred would generate hundreds of millions of USD in revenue for the ROYG annually. Although McKinsey also proposes to tackle corruption throughout the power sector value-chain, including the Aden Refinery and the sale of the ROYG's crude oil production, these reforms are unlikely to be implemented, as they threaten the commercial interests of many in the ruling class.

MODERNIZING ADEN

¶ 17. (SBU) The Top Ten reform item that has seen the least progress is stimulating economic growth in Aden. McKinsey proposes to help disparate government agencies coordinate their efforts in Aden, something the ROYG has proven incapable or unwilling to do thus far, and help launch six flagship economic projects over the next two years. These proposed projects include attracting regional air traffic to Aden's airport, modernizing the Port of Aden's "Cargo Village" to accommodate bigger import-export operations, and creating a large real estate development in the downtown area. While some of the Aden proposals may exceed the ROYG's current abilities, given the short timeframe (two years) envisioned, even the perception of forward movement on the southern front would be a vast improvement over the ROYG's largely rhetorical efforts thus far to improve Aden's economy. This initiative also would address one of the

long-standing grievances that has fueled the southern protest movement.

COMMENT AND ACTION REQUEST

¶8. (SBU) Post requests that the Department explore ways to fund the balance of McKinsey's bill to the ROYG, up to USD 3.5 million. Having a team of independent, third-party experts oversee the Top Ten Reforms package might end some of the bureaucratic rivalries that have thus far slowed the implementation of policy changes that Saleh blessed when the package was announced last August. An exhaustive quantitative analysis of the inefficiencies in Yemen's power and labor sectors is beyond the current abilities of the national bureaucracy. Through a USAID grant, we are currently helping the ROYG increase civil service capacity by designing a civil service "executive corps," to be drawn primarily from members of the educated Yemeni Diaspora willing to return home to support the process of economic reform. Funding a consultant to implement some of the ROYG's other Top Ten Economic Priorities -- perhaps announced in the context of the Friends of Yemen process -- would cement the U.S.'s role in supporting reform in Yemen. END COMMENT AND ACTION REQUEST.

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